

Neither do we permit the president of General Motors to cast several thousand times as many votes in electing the President of the United States as we accord to the president of a farmers' marketing cooperative. Unequal as they may be in economic power, we treat them as equals when it comes to rights of citizenship.

Once votes in cooperatives were accorded to "big" members on a volume basis, where could the process stop? It is conceivable that the time might come when three or four members of a marketing cooperative would have as much product going through the cooperative as all the other members combined. Would we then give them votes equal to those of several hundred other members? These possibilities are certain to rise in the minds of rank and file of members.

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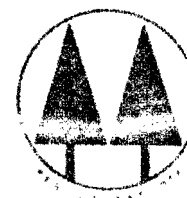
AND FINALLY, how much will cooperatives really be helped by keeping in their membership big operators who remain there only because they are accorded favored political treatment in addition to the economic advantages they already have and, according to cooperative principles and practices, are entitled to?

Farmer cooperatives do need the patronage of the big farmers. The more progressive cooperatives will take steps to be sure they deserve these men's patronage, at the same time that they do not neglect to serve the needs of the smaller farmer as well. But is it not a contradiction of most of the basic values for which cooperative businesses stand to say that they need the patronage of every single big farmer regardless of his attitude toward the values and principles of truly mutual cooperative relationships?

Perhaps the kind of big farmer the cooperatives need is the one who believes in those values and principles not only for what they can do for him, but also because of what they can do to help his neighbor, whose need may be greater than his own.

A NEW LOOK at the Principles and Practices of Cooperatives

By Jerry Voorhis
In "*The People's Business*"



The COOPERATIVE LEAGUE of the USA

59 East Van Buren Street, Chicago, Illinois 60605

Principles on Parade

The "principles of cooperation" have been long and widely respected. At the same time, they often have been questioned. People have said that some are more important than others or that some aren't really principles at all.

They are being questioned again now. The International Cooperative Alliance is in process of re-examination and possible "re-formulation" of them. And some persons here in the United States are questioning the rightness of one of the key ones: one member, one vote.

Jerry Voorhis, author of this pamphlet, is executive director of the Cooperative League and a member of both the central and executive committees of the International Cooperative Alliance. Probably no one has given more thought to this question of the principles than he.

These articles appeared in his semi-monthly column, "The People's Business," in October and November, 1965. The Cooperative League reproduces them in this pamphlet because they deal comprehensively with a subject that is, and will continue to be, of great importance to the success of cooperative organizations.

I

Times Change? What About Principles?

We live in a strange new world.

The changes that now take place in a decade are perhaps as great as those which once required a thousand years.

Every institution that man has built is on trial -- cooperative institutions among them.

Indeed, man himself is on trial; to see whether he is capable and worthy of living longer on the earth at all. We boast that we have conquered nature, but we have hardly begun to learn to live at peace with our neighbors or to conquer our own evil passions. Unless we do so soon, the trial of man could end in his own conviction and self-destruction.

But assuming, as we must, that there will be tomorrows, then must we know that our values and principles, and our ways of applying them to our lives, our governments, businesses, schools, and churches, all will be tested in the fires of change to see which are fit and able to survive into the new world of tomorrow.

Some of these institutions of today, built though they have been out of the experience of generations, will be burned away. Some will survive, but in forms so changed that their whole function and purpose will be different. Still others, rooted in basic needs of man and in principles too fundamental to be burned away, will adapt their methods to the changed conditions and retain the characteristics and purposes that brought them into being.

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WHICH WILL IT BE with cooperative?

Some will say that they have served their purpose, that they have accomplished all their legitimate goals and aims, and that they should be allowed, if gradually, to wither away. Others will seek, as some now do seek, so to alter the principles of cooperation that while "cooperatives" in name may still survive, they will be so changed in form and purpose as to be incapable of longer meeting the needs of their members, communities, and nations as now they do.

Indeed, there goes forward at this moment an inquiry conducted by the International Cooperative Alliance, the aim of which is not only to discover how cooperative institutions can adapt their

and historic cooperative principles shall be cast aside entirely. Understandably, this attack comes mainly from those countries where totalitarian systems have no place for the kind of free and voluntary association of people which true cooperatives must be. A one-party dictatorship can hardly be expected to look with favor on either political non-partisanship, voluntary membership, or democratic control in people's institutions.

But also in our own country there are voices -- albeit mostly academic ones -- which have begun to call in question even so basic a principle of cooperative enterprise as democratic control.

It is my belief that the basic principles of cooperation -- open membership, limitation on the return to capital, democratic control, and return of net earnings to patrons in refunds proportionate to their patronage -- are neither outmoded nor in need of alteration.

Indeed, I believe that the cooperative form of business enterprise -- democratically-controlled, owned by all those who need and use its service, and directing its activity squarely at meeting the needs of people -- is even more necessary today, and will be more needed in the world we are entering than it has been in the past.

I believe that true cooperative enterprise can and will survive into the world of tomorrow without loss of its essential characteristics or reasons for being. Were there no other reasons -- and there are, in fact, many -- it is reason enough that cooperatives can offer to all who desire to use their services the experience of responsible ownership and decision-making participation in the economic life of their country. And this in a time when perhaps the greatest domestic danger our American society faces is lack of just such participation on the part of increasing number of families.

In the next three "People's Business" columns, therefore, we will examine, as honestly and thoroughly as we can, the need for and place of cooperative enterprise and its basic principles and traditional practices in this rapidly changing world.

II

Three Principles -- and What They Mean

The aim and purpose of cooperative enterprises is to make it possible for many "little people" -- that is, people without large amounts of capital -- to own big things.

It is to enable farmers, for example, to own together enough of their own marketing, supply, and service agencies so that they can stand on something like equal terms in the market place with the large corporate buyers and sellers with which they must deal.

fuel oil, auto supplies, credit, housing, health care, or consumer goods to supply their own needs -- if they want to -- through cooperative businesses they themselves own.

A related purpose of cooperative enterprise is to give meaning and substance to the ideal of participation by the people in solving their own problems and making significant decisions that affect their lives.

Cooperatives exist to spread ownership broadly among all who can logically benefit from a particular enterprise, and to keep the opportunity for such ownership open, at comparatively small cost, to all who wish to have it. Cooperative businesses are, and must always remain, locally-owned businesses, for the simple reason that they must, by definition, belong to the people who use them.

This is perhaps the most basic difference between cooperatives and other forms of business. Cooperatives are user-owned, or patron-owned, businesses. Their basic purpose is to meet certain economic needs of their member-owners -- directly. The basic purpose of a investor-owned business, on the other hand, is to return to the owners large dividends on their investments.

Cooperatives can be said truly to be people-oriented businesses, while conventional businesses are dollar-oriented. Conventional, or investor-owned, businesses quite naturally base control and voting rights upon the dollars invested. Cooperatives, on the other hand, vest control in people, in all their member-owners, each having an equal voice. For cooperatives exist quite fundamentally to enable a lot of people to "get into the act" as participants in the big, vibrant economy of a country like the United States of America.

Cooperatives must, of course, conduct their business at least as efficiently, and must render their services at least as beneficially, as any other type of business. But cooperatives provide certain additional values. Among these are a natural emphasis on the worth and dignity of people, all people.

This is important in a democracy because it is on this principle that democratic societies are based and from which their institutions are developed.

Cooperatives also require, if they are to be successful even in an economic sense, that their member-owners be willing to apply the principles of mutual aid to their problems. This is important, certainly, in a nation where the Christian tradition is a strong one.

It will be as important tomorrow -- indeed much more so if cybernetics comes more fully into the picture -- as it is today.

This brings us to the point that we can talk about the principles of cooperation in a practical way, not in a theoretical vacuum.

THE FIRST PRINCIPLE is open, voluntary membership. This is what makes cooperatives so useful a part of a free economic system. The principle means that anyone who can and desires to make use of the services of a cooperative can do so by the purchase of one share at very small cost and thus participate in ownership of what may be a very substantial business indeed.

The principle does not mean that a resident of a rented apartment in the middle of a big city must be allowed to become a member of a milk-marketing cooperative. For he could not use its services. Neither does it mean that a marketing cooperative should be compelled to continue in membership a farmer who refuses to bring the quality of his product up to the standard set by the cooperative. For he is either unable or unwilling to use the very best service such a cooperative can render.

But this principle does mean that a cooperative cannot have compulsory membership. Every potential member must be free to join or not to join as he sees fit.

It also means that cooperatives cannot be controlled by, subservient to, or even closely related to particular political parties, thus making it either impossible or extremely difficult for people otherwise perfectly qualified to become or remain members. Open, voluntary membership also means that there can be no discrimination on grounds of race, creed, or economic status.

Cooperative membership must be open to anyone who can logically and wishes sincerely to use the services, whether he be black or white, Catholic, Protestant, Jewish, Moslem, or Buddhist, well-to-do, middle-class, or poor.

It will be observed that under the open, voluntary membership principle we have also dealt with the practice of political non-partisanship and religious non-sectarianism. We have put these considerations where they logically belong.

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THE SECOND PRINCIPLE is limitation on the return to capital. This is flagrantly violated in certain totalitarian countries which place no limit on the amount of interest on shares.

Technically speaking, the limitation could, I suppose, be placed anywhere between zero and 7% or 8%, though the latter figures are pretty high. But the main point is that for an enterprise to be a cooperative it must be so organized and operated as to express its unique character or "hall mark," which is that cooperatives are born out of people's needs for goods or services and exist to satisfy those needs, not to make money for investors. Once they start making big returns to investors, the investors will take control and, for perfectly natural selfish reasons, subvert the whole purpose of the cooperative.

In a cooperative, people and their needs must always be the predominant factor -- these rather than dollars and the so-called "right" to an unlimited interest or dividend return. We have plenty of other businesses which exist primarily to provide the best possible return to invested dollars. It is the duty of cooperatives to fill the other kind of need -- the need of people for goods and services.

And even in the strange new world, people's needs are going to be as acute as ever.

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THE THIRD PRINCIPLE is that in the cooperative form of business the net earnings are the property, not of the shareholders as such, but of the users of the services in proportion to their use of those services and hence their support of the cooperative. If this principle is not observed -- as it is not in the Soviet Union -- then the "cooperative" ceases to be a cooperative.

Again, there are plenty of other businesses which operate on the principle that the earnings belong to the investors in proportion to their investment. The only excuse for having a co-op at all is to operate it differently -- and according to its basic reason for existence, which is to meet the needs of people at the lowest fair and practical net cost.

This principle is realized, of course, through the patronage refund, as is clearly enough understood to require no further elaboration. One may say of it, however, that it has stood the test of a long, long time -- in fact, since several decades before the great British Prime Minister William Ewart Gladstone remarked that "the cooperative concept of the patronage refund is the greatest economic discovery of the 19th century." And I could add, probably of the 20th century as well.

I have left for the last article of this series the discussion of of the principle of democratic control -- since, marvelous as it is, this is the only one being here and there called in question in the very country that boasts so strongly of its democratic institutions and heritage. In the next one, however, I wish to discuss some practices that sometimes have been called principles.

III

Experience Demonstrates Value of Key Practices

In the last two columns we have considered the historical, economic, and social reasons why the basic principles of cooperation are as valid and alive today as they were a century ago.

We have examined three of those principles in the light of the changed circumstances of the modern world. And we have found no good reason to change them or to cease to apply them as tests of whether an enterprise can properly be called a cooperative.

These three principles are (1) voluntary and open membership without regard to race, creed, economic circumstance, or political affiliation; (2) limitation on return to capital; and (3) distribution of net earnings to the patrons, whose property they are, in proportion to their use and patronage of the business.

The fourth of the basic principles, that of democratic control, is the subject of the next and final column in this series.

But before we come to it, a word must be said about cash trading, continuous education, and constant expansion. For these have sometimes been listed among the cooperative principles.

They are not essential principles but rather important and highly desirable practices of cooperatives. Experience has indeed shown the value of these practices to the success and safety of cooperative enterprises. But it is possible to have a true cooperative which does extend credit. It is possible, at least for a time, to have a true cooperative even if no continuous educational program is carried on. And while a cooperative that does not expand or educate its members is almost sure to be headed for economic problems and perhaps slow or sudden death, nevertheless there can be genuine cooperatives whose business volume remains virtually static from year to year.

Political neutrality and religious neutrality, or non-partisanship in politics and non-sectarianism in religion, often are listed separately either as principles or as important practices.

But quite logically they are essential conditions of true open and voluntary membership. If membership is actually to be open to any person who can and desires to make use of the services of a cooperative, then clearly no political party or organization may be allowed to dominate the cooperative and it may not restrict its membership to people of particular religious beliefs.

So it is respectfully proposed that non-partisanship in politics and non-sectarianism in religion be regarded as part of the basic

principles of open, voluntary membership rather than either a principle or a practice in and of themselves. (The case of credit unions is, of course, an exception. By law there must be a common bond among the members. And for good reasons. Consequently many credit unions are formed within church parishes.)

Among cooperatives in the United States there is little disagreement in theory or divergence in practice so far as the principles and practices thus far discussed are concerned. Many supply cooperatives, it is true, feel themselves more and more forced by their competition to extend credit. But no one believes this violates their essential character as true cooperatives. And so long as sound and clearly understood credit policies are followed, no great danger to their economic welfare need result.

One note of warning.

What has been said here should not be understood in any way as indicating that the cooperative practices which have been shown by a century of experience to be wise and necessary to the growth and full success of cooperatives can, with impunity, be cast aside. Particularly is this true where member education has been neglected.

Wherever this has happened, the cooperative has sooner or later suffered -- sometimes fatally.

What we have said is that in applying a test to distinguish a cooperative enterprise from other forms of economic organization, it is enough to show that the enterprise does have open, voluntary membership, limitation of return to capital, democratic control, and payment of patronage refunds. These are the four basic principles.

The practices of continuous education and constant expansion are necessary to the success of cooperatives, but they are not essential distinguishing characteristics. Neither is cash trading. Indeed modification of the practice of cash trading has become almost necessary for many cooperatives if they are to meet competition effectively. The essential factor here is that clearly understood, sound, and fair credit policies be set forth and followed without exception.

Our next article will be devoted wholly to discussion of the basic principle of democratic control.

IV

'One Member, One Vote' Means Primacy of People

In recent years, some questions have been raised with respect to the basic cooperative principle of democratic control: one member, one vote regardless of the number of shares held.

Proposals have been advanced that "equity" should replace

equality in voting rights. Members operating large farms, for example, are said to have more at stake than smaller operators and should, therefore, have multiple voting rights.

This argument when applied to regional federations of cooperatives undoubtedly has considerable validity.

It is certainly no violation of cooperative principle if a member organization with 1,000 members and a \$1,000,000 annual business is given more votes in the affairs of a regional than a member cooperative with 100 members and a \$100,000 patronage. Indeed, strict application of the cooperative principle of the primacy of people would seem to indicate that it would be wrong not to take account of the larger number involved in such an instance.

But in the local, or "primary," cooperative the situation is different. The members are persons. They are individual farmers or consumers, and each of them, according to fundamental cooperative principle and practice, is of equal worth and entitled to an equal voice, regardless of the number of shares he holds or the volume of his business dealings.

The cooperative form of economic enterprise arose and has flourished because it has been different in certain respects from other enterprises, and because it has been able to fill certain needs that other enterprise could not fill. One of the ~~most~~ basic of these differences has always been the cooperatives' adherence to the idea that people are more important than money -- even in economic affairs. One of the most compelling reasons for having cooperatives at all is to give large numbers of people an opportunity to take part, significantly, in a decision-making in a business.

It ~~is~~ seems wise to dilute this unique value of the cooperative form of economic organization unless a convincing reason exists for ~~so~~ doing.

Does such a reason exist?

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THE ARGUMENT FOR MODIFICATION of the principle of democratic control focuses almost exclusively on farmer cooperatives and particularly marketing cooperatives. It asserts that cooperatives cannot afford to lose the patronage of the big farmer and that they will surely lose it unless they heed his demand for more votes than are accorded his neighbor who farms on a smaller scale.

But evidence of any such "demand" is indeed hard to find. The largest regional farm supply cooperative in the country has never discussed modification of the one member, one vote principle in any of its meetings. The board of directors of one of the major state wide Farm Bureau-sponsored cooperatives recently voted unanimously to keep the one member, one vote rule in all its county

manager of one of the largest farmers' cooperatives in Iowa reports that the question of multiple voting never has been raised.

In an article in the September 1965 issue of News for Farmer Cooperatives, E. H. Fallon, executive vice-president of Agway, largest cooperative organization of any kind in the United States, wrote as follows: "Agway is chartered as a regular business corporation to give us flexibility in operation. The regular cooperative principles, however, are embodied in our bylaws: One man, one vote, limited return on capital, patronage refunds to members."

It is quite true that some of the citrus fruit cooperatives in California have practiced multiple voting to favor big operators for a number of years. And such practice may exist in a few other places, in marketing cooperatives only. But when the Wisconsin Association of Cooperatives, in the nation's number one dairy state, surveyed its members recently it found that 69 out of 70 member cooperatives which replied to its question reported that they observe the one member, one vote principle. Only one did not.

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ONE OF THE GREAT SOURCES OF STRENGTH inherent in the cooperative form of economic organization has always been its practical emphasis on the primacy of people. In cooperatives each member has been regarded as of equal worth with every other member.

Here, in cooperatives, has been one place in our great free enterprise economy where real democracy has existed -- and has been proved practical as a method of control. It would be a mistake to destroy this value.

It would also, I am convinced, be dangerous to the future success of cooperatives. It is altogether obvious that realistic economic practices must be followed by cooperatives. It costs less per ton to deliver large quantities of fertilizer than to deliver small quantities. A price differential on the larger quantity orders may well be justified.

And it is a basic principle of all cooperatives that the farmer or other member who does the most business with the cooperative receives automatically the largest patronage refund. This principle is followed, in part at least, to recognize the greater interest of the larger user and patron.

But it does not follow from these economic policies that control over the government of the cooperative should be given over to the large operators along with their recognized and wholly justified economic advantages.

The man with 10 children derives 10 times as much benefit from the school system as does the man with one child. But we do not give him 10 times as many votes in electing school officials.